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## Bringing Smart Policies to Life

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# The State of Financial Inclusion in Asia: An Overview

*Presented by*

**Dr. Nimal A. Fernando**  
Managing Director  
Inclusive Finance International  
Sri Lanka

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# Outline

- Introduction
- Definition of Inclusive Financial System
- Some Issues of Data
- State of Financial Inclusion in the Region
- Patterns of Financial Inclusion
- Conclusions

# Introduction

- Financial inclusion has been an important policy area in the Asian Region for decades
- This emphasis was reinforced in recent years
- Results of recent efforts have been more positive in general
- But the results are uneven across countries
- What is the current status in financial inclusion?

## **Financial inclusion is a multi-dimensional concept and needs a comprehensive definition that covers all key dimensions**

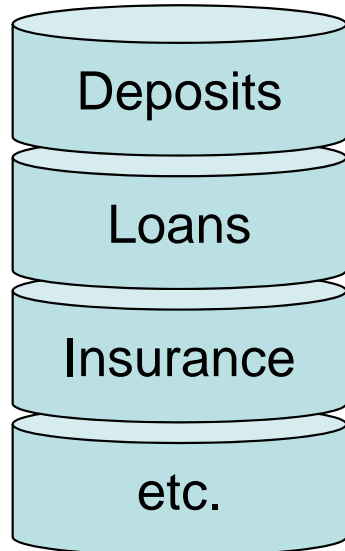
“A financial system that offers permanent access to a broad range of high quality financial services to the entire active population of a country at an affordable cost.”

- Note five dimensions in this definition:

**Permanent  
Access**



**Broad Range  
of Services**



**High Quality**



**Entire Active  
Population**



**Affordable  
Cost**

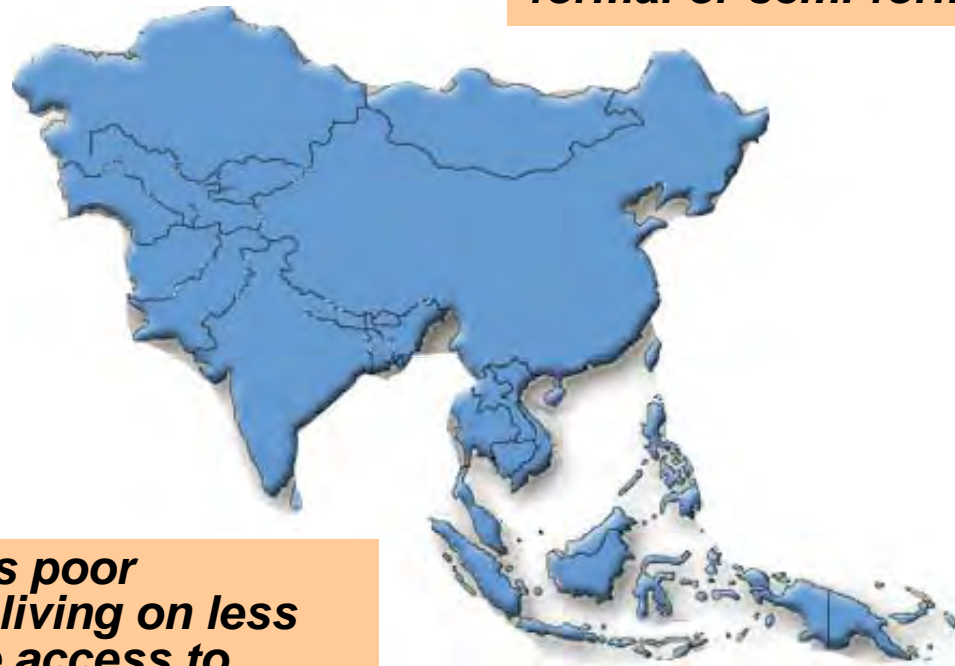


## Sources of data are diverse but data quality varies and needs improvements

Recent national-level representative household sample surveys are available in Nepal, Pakistan, Sri Lanka and Indonesia.

- They provide high quality and detailed data but we get only a snapshot of financial inclusion/exclusion from these.
- Supply-side data are available from a variety of sources. They count accounts, not customers.
- But their coverage is limited; they suffer from multiple counting and dormant account presence and require significant and difficult adjustments.
- Microfinance supply-side data requires adjustments for borrowing from multiple institutions and for poverty outreach.
- For example, some micro-level studies in India have shown that Self-Help-Groups serve non-poor more than the poor.

***~40-50% Asian households have some access to formal or semi-formal financial services.***



***About 25% of Asia's poor households (those living on less than \$2/a day) have access to finance.***

- Relative to the status in 2006, the region has made a remarkable progress.
- Bangladesh and India have made the largest contribution to this improvement.
- But a large proportion in the region are still financially excluded from formal or semi-formal systems.
- And a significant number of micro and small and medium enterprises (MSMEs) also remain financially excluded.

## Inclusion level varies significantly across countries

High level of inclusion <b>(Over 50% of the adult population or households)</b>	Thailand, Malaysia, Sri Lanka, Nepal, Mongolia
Intermediate level of inclusion <b>(30%-49%)</b>	India, China, Indonesia, Bangladesh, Vietnam
Low level of inclusion <b>(Below 30%)</b>	Cambodia, Myanmar, Philippines, Papua New Guinea, Pakistan, Laos, Timor-Leste, Solomon Islands, Vanuatu, Samoa, Tuvalu, Kiribati

- Sri Lanka's performance in financial inclusion is remarkable
- A GTZ-led national household survey (2006-2007) on use of financial services found:



**82.5%** have used financial institutions (FIs) for loans and/or savings

**75%** have saved in a FI

**17.3%** have 3 or more savers in FIs

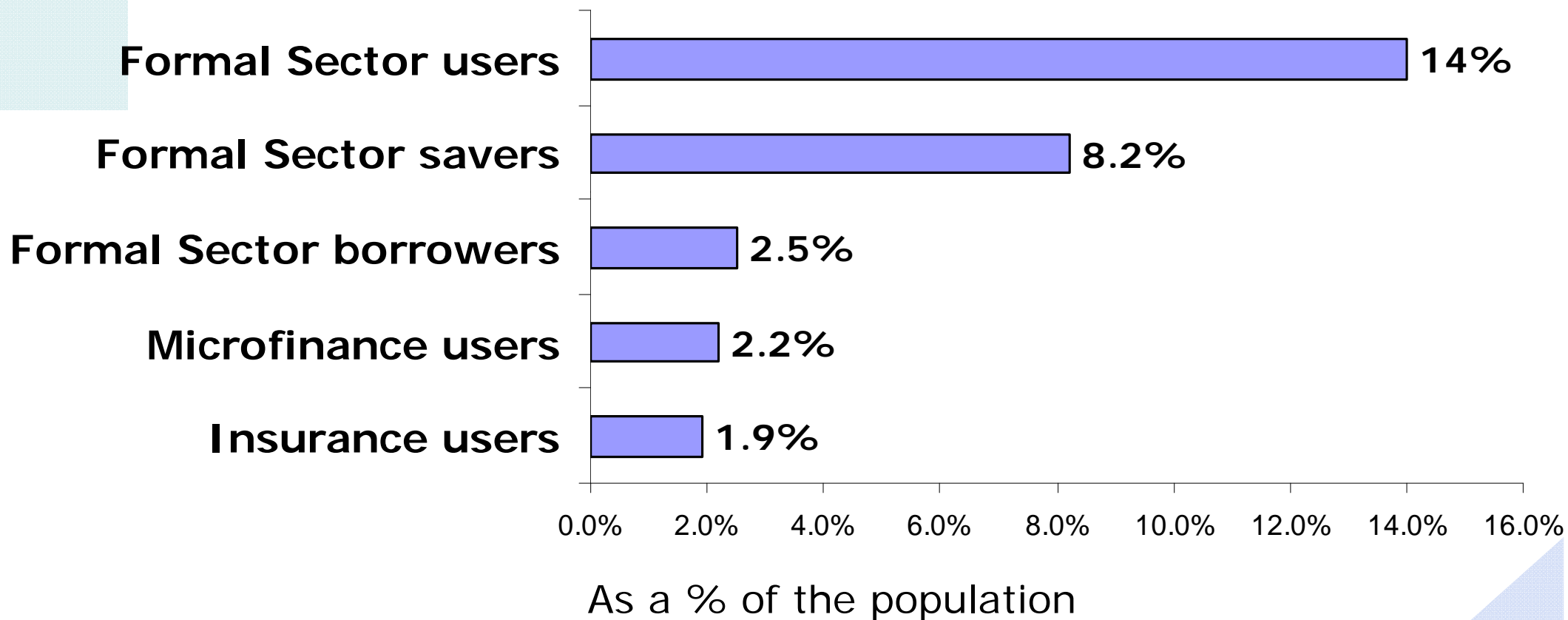
**>60%** have used microfinance institutions

**9.7%** of households have used both formal and informal credit while a mere 8.6% have used only informal credit

**>31%** of households have some form of insurance

- No substantial differences in use of financial services between urban and rural areas

**But Pakistan's picture is dismal. The average Pakistani remains outside the formal/semi-formal financial system.**



## **Due to microfinance growth, a quantum shift has occurred in access to finance in some countries during the last 4-5 years**

- Afghanistan
  - Bangladesh
  - India
  - Cambodia
  - Viet Nam
  - Mongolia
- Note: Successful reform of a state-owned bank also contributed to Mongolia's shift to a higher level of financial access

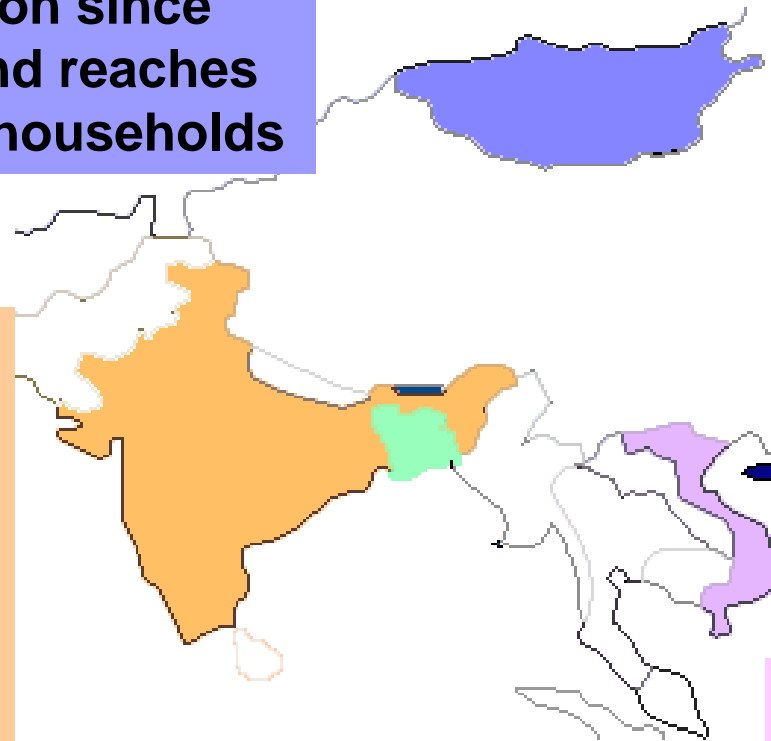
**Mongolia's Khan Bank increased number of deposit accounts by over 1.4 million since 2006 and reaches 62% of households**

**Bangladesh added 4-6 million new microcredit clients since 2006; reaches about 55% of poor households; and substantially expanded access to savings**

**Access to credit for India's poor households has increased from less than 8% in 2004 to about 20-25% in 2009**

**In 2007-2008 Indian microfinance sector outreach increased by 9.9 million**

**Viet Nam has added about 2.1 million new microcredit clients since 2006**



## But patterns of access remain remarkably similar in most countries

- Lower income groups have significantly lower access (Bangladesh and Sri Lanka may be exceptions)
  - In Pakistan 6.5% of the poorest quintile as against 39% of the richest quintile farmers have access to formal financial services (A2F Survey)
- Rural people have much less access
  - In Nepal, only 16% of the rural households have a bank account as against 74% of the urban households.
  - India: Rural adults with bank accounts 39% vs 60% for urban adults.

## Patterns of Access.....

- Males have better access than females for banking services. In microfinance it is the opposite.
  - In Pakistan only 5.5% of women, against 21.1% of men have access to banking services
- Youth have much less access to finance than others
  - Indonesia may be an exception where 22% of microfinance clients are youth

*Selected sources:*

*Pakistan: A2F Household Survey (2008);*

*Nepal: Access to Financial Services Survey (2006)*

*Indonesia: Youth and Access to Microfinance in Indonesia (Mercy Corps and MICRA, 2006)*

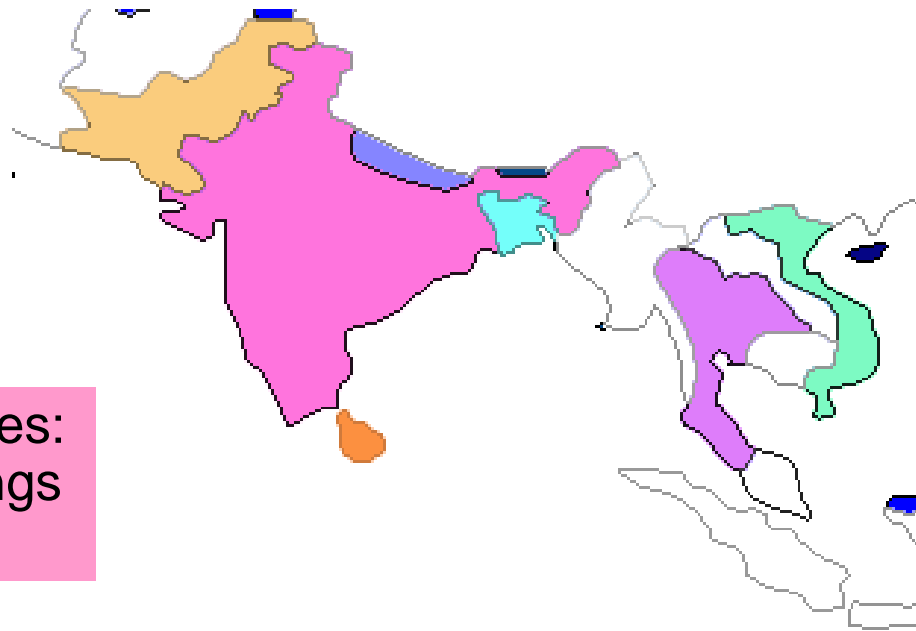
*India: Reserve Bank of India sources*

## **Private sector role is marginal and state-owned institutions are dominant**

- Private sector commercial banks serve mostly those in upper income groups.
- In South Asia, there is no single private sector commercial bank substantially involved in providing financial services to low-income households.
- Both state-owned banking and non-banking institutions provide access to a broader mix of clients.

Pakistan Post Savings Bank had 3.6 million accounts in 2006

Bangladesh Rural Development Board: 4.7 million active borrowers and Bangladesh Krishi Bank another 521,000 active borrowers at end of 2007



India's Post Offices: 60.8 million savings accounts

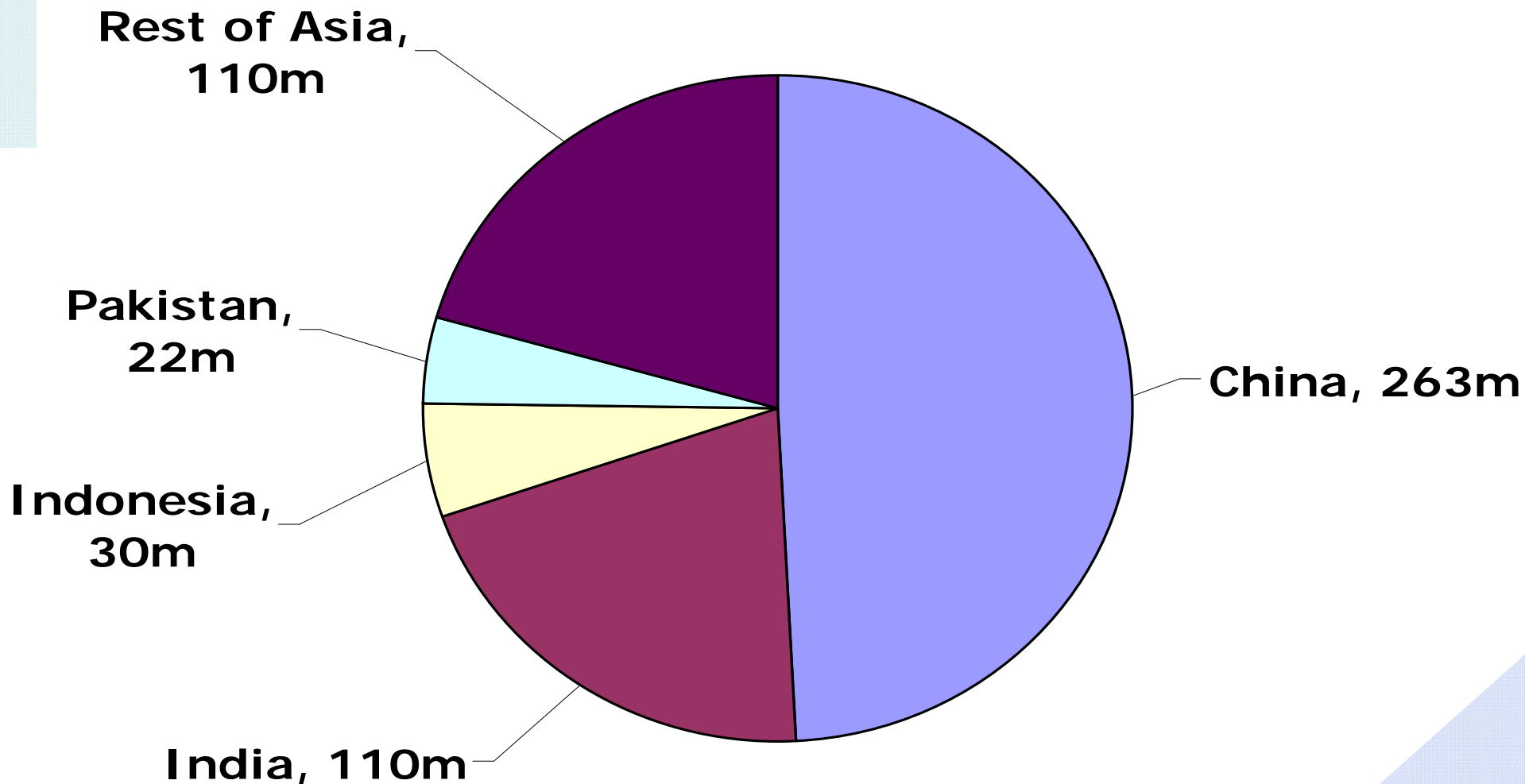
Vietnam Bank for Social Policy: 6.79 million active borrowers at end of 2008

72% of households in Sri Lanka use state banks

Government Savings Bank (Thailand): 36 million accounts

Vietnam Bank for Agriculture and Rural Development: a customer base of 10 million farmers

**Despite progress, major gaps remain. Some 535 million households are still excluded.**



## **China's access to credit for rural people seems to have declined after the reform program of banking sector and rural credit co-ops**

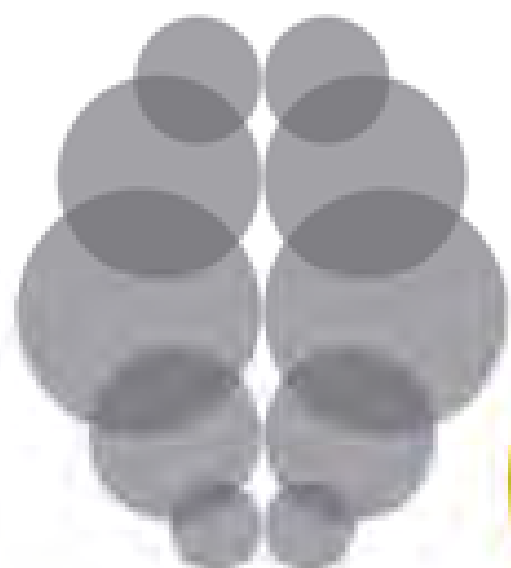
- In most countries access frontier has not made significant improvement beyond "narrow microcredit" to other services.
- Even in microcredit, product diversity is limited. The vast demand is for general purpose credit (Portfolios of the Poor); but FIs do not provide such products.
- India's poor suffer from a massive access problem to deposit services. "No-frills" accounts have increased to over 28 million but micro-level studies show that a large proportion of these are barely used.
- The quality of services provided by state-owned FIs to low-income people remains an open question. And these institutions are heavily subsidy-dependent.

# Conclusions

- Asia has made remarkable progress in financial inclusion over the last 4 years.
- But most households have partial, not full, access as per our definition.
- The region continues to suffer from a massive financial exclusion problem both quantitatively and qualitatively.
- Agenda of financial inclusion in Asia hence remains unfinished.
- Availability of data from a multitude of sources has increased. Efforts are needed to improve the data, particularly to capture dynamic aspects of financial inclusion/exclusion.

# Thank you for Listening

**Dr. Nimal A. Fernando**  
Managing Director  
Inclusive Finance International  
Sri Lanka  
[nimalfernando@hotmail.com](mailto:nimalfernando@hotmail.com)



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